

Auditing Procedures Report

*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.06)

Unit Name	Fremont Area District Library	County	NEWAYGO	Type	LIBRARY	MuniCode	62-8-000
Opinion Date-Use Calendar	May 30, 2008	Audit Submitted-Use Calendar	Aug 28, 2008	Fiscal Year End Month	12	Fiscal Year	2007

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

<input checked="" type="checkbox"/> <input type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?		
<input checked="" type="checkbox"/> <input type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?		
<input checked="" type="checkbox"/> <input type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?		
<input checked="" type="checkbox"/> <input type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?		
<input checked="" type="checkbox"/> <input type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?		
<input checked="" type="checkbox"/> <input type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?		
<input checked="" type="checkbox"/> <input type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?		
<input checked="" type="checkbox"/> <input type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?		
<input checked="" type="checkbox"/> <input type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?		
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)		
<input checked="" type="checkbox"/> <input type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)		
<input checked="" type="checkbox"/> <input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?		
<input checked="" type="checkbox"/> <input type="checkbox"/>	13. Is the audit opinion unqualified?	14. If not, what type of opinion is it?	NA
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?		
<input checked="" type="checkbox"/> <input type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?		
<input checked="" type="checkbox"/> <input type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?		
<input checked="" type="checkbox"/> <input type="checkbox"/>	18. Are there reported deficiencies?	<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="checkbox"/> \$	804,707.00
General Fund Expenditure:	<input type="checkbox"/> \$	823,289.00
Major Fund Deficit Amount:	\$	0.00

General Fund Balance:	<input type="checkbox"/> \$	4,883.00
Governmental Activities Long-Term Debt (see instructions):	<input type="checkbox"/> \$	56,682.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name)	Jodi	Last Name	DeKuiiper	Ten Digit License Number	1101021180		
CPA Street Address	711 West Main Street	City	Fremont	State MI	Zip Code 49412	Telephone	+1 (231) 924-6890
CPA Firm Name	Hendon & Slate, PC	Unit's Street Address	104 East Main Street	Unit's City	Fremont	Unit's Zip	49412

**FREMONT AREA DISTRICT LIBRARY
NEWAYGO COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

DECEMBER 31, 2007

TABLE OF CONTENTS

	<u>Page</u>
List of Principal Individuals	ii
Independent Auditor's Report	1
Management's Discussion and Analysis	2 - 4
Combined Government-Wide and Fund Financial Statements:	
Governmental Funds Balance Sheet/Statement of Net Assets	5
Statement of Governmental Revenue, Expenditures and Changes in Fund Balance/Statement of Activities	6
Notes to the Financial Statements	7 - 15
Required Supplemental Information:	
Budgetary Comparison Schedule - General Fund	16

FREMONT AREA DISTRICT LIBRARY

Board Members

<u>Appointed Official</u>	<u>Position</u>
Marianne Mansfield	President
Ruth Deuling	Vice-President
Thomas Schmidt	Treasurer
Peggy Byland	Secretary
Karla Johnson	Trustee
Bonnie Erber	Trustee
Anne VandeKieft	Trustee

Administration

Raymond Arnett	Director
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H&S Companies

Hendon & Slate, PC
Certified Public Accountants
Business Consultants

Library Board
Fremont Area District Library
Newaygo County
Fremont, MI 49412

Independent Auditor's Report

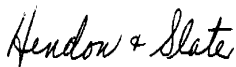
We have audited the accompanying financial statements of the Fremont Area District Library as of and for the year ended December 31, 2007 as listed in the accompanying table of contents. These financial statements are the responsibility of the Library's board. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fremont Area District Library as of December 31, 2007, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information listed in the table of contents as supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Fremont Area District Library. This information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The management's discussion and analysis included in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Fremont Area District Library. We did not examine this data and, accordingly, do not express an opinion thereon.



Hendon & Slate, P.C.
Certified Public Accountants
May 30, 2008

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FREMONT AREA DISTRICT LIBRARY

Management's Discussion and Analysis (MD&A)

Year Ended December 31, 2007

Using this Annual Report

This annual report consists of three parts - *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library:

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. The second column provides information on the Debt Service Fund. These two columns are combined in a Total column (the third column). These Fund Financial Statements focus on the current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The Adjustment column of the financial statements represents adjustments necessary to the government-wide financial statements under the full-accrual method.
- The *government-wide financial statement* columns provide both *long-term* and *short-term* information about the Library's *overall* financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short-term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below contains key financial information in a condensed format:

	<u>12/31/2007</u>	<u>12/31/2006</u>
Current Assets	\$ 189,743	\$ 138,168
Noncurrent Assets	<u>5,844,343</u>	<u>5,981,088</u>
Total Assets	6,034,086	6,119,256
Long-Term Liabilities	56,682	62,056
Other Liabilities	<u>184,860</u>	<u>114,703</u>
Total Liabilities	<u>241,542</u>	<u>176,759</u>
Net Assets		
Invested in Capital Assets-Net of Debt	\$ 5,799,343	\$ 5,981,088
Restricted for Debt Service	-	2,066
Unrestricted	<u>(6,799)</u>	<u>(40,657)</u>
Total Net Assets	<u>\$ 5,792,544</u>	<u>\$ 5,942,497</u>

Management's Discussion and Analysis (Continued)

	<u>12/31/2007</u>	<u>12/31/2006</u>
Revenue		
Property Taxes	\$ 534,016	\$ 499,663
Grants	131,896	829,890
Other	<u>135,822</u>	<u>138,795</u>
Total Revenues	801,734	1,468,348
Expenses		
Library Services	<u>951,687</u>	<u>916,559</u>
Change in Net Assets	<u>\$ (149,953)</u>	<u>\$ 551,789</u>

The Library as a Whole

The state continues to experience tight economic times and state aid to libraries was reduced 20% as a result in 2007. The library has a stable source of funding in property taxes, however, this is limited in its growth due to Headlee amendment rollbacks. The library continues to operate with reduced staffing and tightly controls expenditures throughout the year in order to ensure that the budget is balanced.

The Fremont Area District Library is fortunate to have strong community support that has resulted in private donations and the library did experience a slight growth in those donations. In addition, several families have established funds at the Fremont Area Community Foundation to benefit the library, and the library has utilized earnings from those funds this year to provide additional materials and programming.

During the year, the library redeemed \$5,000 in outstanding bonds from the building construction. This was accomplished by utilizing money from a designated fund at the Fremont Area Community Foundation. The library currently owes only \$45,000 in bonds as of December 31, 2007.

The areas served by the Fremont Area District Library continue to grow economically, however, this past year did not see any major changes or growth in the tax base.

In 2007, the library applied for a grant from the Fremont Area Community Foundation to open a Non-Profit Resource Center. The library was designated a Cooperating Collection of the Foundation Center, providing access to grant and fundraising information to local non-profit organizations.

The Library's Funds

Our analysis of the Library's major funds is included on pages 5 and 6 in the first column of the respective statements. The fund columns provide detail information about the most significant funds, not the Library as a whole. The Library Board has the ability to create separate funds to help manage money for specific purposes, and to maintain accountability for certain activities, such as property tax millages. The Library's major funds consist of the General Fund and the Debt Service Fund.

Library's Budgetary Highlights

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year, such as the receipt of grant funds and gifts. The most significant amendments occurred in:

- Grant Income
- Library Materials
- Processing for Library Materials
- Capital Expenditures

Capital Asset and Debt Administration

During 2007, the library continued to add to its collection.

The library replaced several pieces of major equipment during the year. Purchases included:

- Public and staff computers
- Security camera server and cameras
- Security Camera Server

These major purchases were accomplished using operational funds and designated fund grants from the Fremont Area Community Foundation.

The Gerber Foundation also gave a grant to the library to purchase patio furniture and planters for a Childrens' Patio Garden in honor of Mr. Randy Puff.

The library received a grant from the Gates Foundation to replace 5 public workstations in 2007 and received partial support to replace a sixth computer. The library also received notice that another Gates Foundation grant would help replace 7 public workstations in early 2008. These grants were administered through the Library of Michigan and the Lakeland Library Cooperative; therefore, the funds do not appear in the library's financial statements.

One planned capital purchase was the replacement of the library's phone system. Due to scheduling, this project was postponed until early 2008.

In 2006, the library redeemed most of the outstanding bonds from the building construction by utilizing money from a designated fund at the Fremont Area Community Foundation. This redemption saved the library interest fees this year; however, this one-time expenditure did inflate our budget for 2006 compared to 2005 and 2007. The library currently owes only \$45,000 in bonds as of December 31, 2007. The remaining bonds are payable in annual installments over the next 9 years (ending May 2016).

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Library's finances and to demonstrate the Library's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Library Director, Fremont Area District Library, 104 E. Main Street, Fremont, MI 49412.

FREMONT AREA DISTRICT LIBRARY

Governmental Funds Balance Sheet/Statement of Net Assets December 31, 2007

	General Fund	Debt Service Fund	Total	Adjustments*	Statement of Activities
ASSETS					
Cash	\$ 183,216	\$ -	\$ 183,216	\$ -	\$ 183,216
Accounts Receivable	223	-	223	-	223
Prepaid Expenses	6,304	-	6,304	-	6,304
Land	-	-	-	327,894	327,894
Capital Assets, Net of Accumulated Depreciation	-	-	-	5,516,449	5,516,449
Total Assets	<u>\$ 189,743</u>	<u>\$ -</u>	<u>\$ 189,743</u>	<u>\$ 5,844,343</u>	<u>\$ 6,034,086</u>
LIABILITIES & FUND EQUITY					
Liabilities					
Accounts Payable	\$ 22,626	\$ -	\$ 22,626	\$ -	\$ 22,626
Accrued Salaries and Taxes	16,286	-	16,286	-	16,286
Due to Other Governments	3,381	-	3,381	-	3,381
Deferred Revenue	142,567	-	142,567	-	142,567
Long-Term Liabilities					
Accrued Compensated Absences	-	-	-	11,682	11,682
Bonds Payable, Within 1 Yr	-	-	-	5,000	5,000
Bonds Payable, After 1 Year	-	-	-	40,000	40,000
Total Liabilities	184,860	-	184,860	56,682	241,542
Fund Balance/Net Assets					
Fund Balances					
Unreserved, Undesignated	4,883	-	4,883	(4,883)	-
Total Fund Balances	4,883	-	4,883	(4,883)	-
Total Liabilities & Fund Equity	<u>\$ 189,743</u>	<u>\$ -</u>	<u>\$ 189,743</u>		
Net Assets					
Invested in Capital Assets - Net of Related Debt				5,799,343	5,799,343
Unrestricted				(6,799)	(6,799)
Total Net Assets				<u>\$ 5,792,544</u>	<u>\$ 5,792,544</u>

* Notes to the Financial Statements provide the details for main components of the adjustments.

The Notes to the Financial Statements are an integral part of this statements.

FREMONT AREA DISTRICT LIBRARY

Statement of Governmental Revenues, Expenditures and Changes in Fund Balance/Statement of Activities December 31, 2007

	General Fund	Debt Service Fund	Total	Adjustments*	Statement of Activities
REVENUE					
Local Sources					
Property Taxes	\$ 534,016	\$ -	\$ 534,016	\$ -	\$ 534,016
Grants	131,896	-	131,896	-	131,896
Penal Fines	54,189	-	54,189	-	54,189
Interest	13,990	-	13,990	-	13,990
Patron Fees	25,428	-	25,428	-	25,428
Donations & Memorials	31,320	-	31,320	-	31,320
Gain (Loss) Sale of Assets	-	-	-	(2,973)	(2,973)
Miscellaneous	3,314	-	3,314	-	3,314
Total Local Sources	794,153	-	794,153	(2,973)	791,180
State Sources - State Aid	10,554	-	10,554	-	10,554
Total Revenue	804,707	-	804,707	(2,973)	801,734
EXPENDITURES					
Salaries and Wages	358,274	-	358,274	(374)	357,900
Payroll Taxes	26,224	-	26,224	-	26,224
Fringe Benefits	98,303	-	98,303	-	98,303
Acquisitions	73,515	-	73,515	(80,140)	(6,625)
Utilities and Telephone	73,470	-	73,470	-	73,470
Repairs and Maintenance	65,011	-	65,011	-	65,011
Insurance	13,580	-	13,580	-	13,580
Capital Outlay	12,752	-	12,752	(5,550)	7,202
Prof. and Contracted Services	18,445	-	18,445	-	18,445
Co-Op Services	21,825	-	21,825	-	21,825
Supplies	35,510	-	35,510	-	35,510
Training	765	-	765	-	765
Transportation	4,686	-	4,686	-	4,686
Memberships	1,609	-	1,609	-	1,609
Printing & Advertising	1,953	-	1,953	-	1,953
Miscellaneous	10,208	-	10,208	-	10,208
Debt Service	7,159	-	7,159	(5,000)	2,159
Depreciation	-	-	-	219,462	219,462
Total Expenditures	823,289	-	823,289	128,398	951,687
Excess Revenue Over					
(Under) Expenditures	(18,582)	-	(18,582)	(131,371)	(149,953)
Other Operating Sources (Uses)					
Transfers In (Out)	2,066	(2,066)	-	-	-
Excess Revenue & Oper. Sources Over (Under)					
Expenditures & Oper. Uses	(16,516)	(2,066)	(18,582)	(131,371)	(149,953)
Fund Balance/Net Assets	21,399	2,066	23,465	5,919,032	5,942,497
Fund Balance/Net Assets	\$ 4,883	\$ -	\$ 4,883	\$ 5,787,661	\$ 5,792,544

* Notes to the Financial Statements provide the details for main components of the adjustments.

The Notes to the Financial Statements are an integral part of this statement.

FREMONT AREA DISTRICT LIBRARY

Notes to the Financial Statements
December 31, 2007

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Fremont Area District Library (the "Library") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies:

1. REPORTING ENTITY

The Fremont Public Library was reorganized as the Fremont Area District Library as created by Act 24 of the Public Acts of 1989, as amended, effective July 1, 1996. The purpose of the Fremont Area District Library is to provide library services to the City of Fremont and four surrounding local units, including the Fremont Public Schools. The Library's Board consists of seven appointed board members.

The financial statements include all activities of the Library. There are no governmental departments, agencies, institutions, commissions, public authorities or organizations within the Library, which its appointed officials may exercise oversight responsibility, that have been excluded. Oversight responsibility is considered to be derived from the Library's power and includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability of fiscal matters.

Also, using the same criteria above, the Library's financial statements include the accounts of all Library operations.

2. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major and non-major funds).

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts-investing in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The effect of interfund activity has been eliminated from the government-wide financial statements. Also, there are no fiduciary funds included in the government-wide statements.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are record only when payment is due.

Property taxes, State Shared Revenue, Penal Fines and interest are considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Deferred revenues arise when resources are received by the Library before it has met all of the eligibility requirements imposed by the grantor or provider.

The Library reports the following major governmental funds:

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the library. Revenues are derived primarily from intergovernmental activities.

Debt Service Fund - Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal, interest and related costs.

3. CAPITAL ASSETS

Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance that do not add to the value of the asset or materially extend assets lives are expenses as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and Improvements	10 - 50 Years
Furniture and Equipment	5 - 20 Years
Library Books and Materials	3 - 10 Years

4. PROPERTY TAXES

Property taxes are levied on December 1st based on the taxable valuation of the property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year. The Townships and City bill and collect the property taxes.

5. CASH AND EQUIVALENTS

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments, if any, with original maturities of three months or less from date of acquisition.

6. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

7. PREPAID EXPENSES

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

8. COMPENSATED ABSENCES (VACATION AND SICK LEAVE)

It is the Library's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Library employees are granted vacation and sick leave in varying amounts based on length on service. Upon termination, employees are paid accumulated vacation at full rates and a bonus in lieu of sick leave based upon years of service and status. Vacation and sick pay, per above requirements, is accrued when incurred in the government-wide financial statements. A liability for this amount is reported in the general fund.

9. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

10. FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to change.

NOTE B STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The General Fund is under formal budgetary control. The budget shown in the financial statements for this fund was prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consists only of those amounts contained in the formal budget approved and amended by the Board.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The Library was in compliance with this act for the year ended December 31, 2007.

NOTE C DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Library to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Library is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Library's funds are held at Huntington Bank and are carried at cost. At December 31, 2007, they consisted of the following:

	Market Value	Carry Value
Checking Account	\$ 607	\$ 4
Money Market	183,092	183,092
Cash on Hand	120	120
Total Cash	<u>\$ 183,819</u>	<u>\$ 183,216</u>
FDIC Insured	\$ 100,607	
Uninsured	<u>83,212</u>	
Total Deposits	<u>\$ 183,819</u>	

NOTE D DEFERRED REVENUE

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Grants	\$ -	\$ 116,473
Taxes	-	26,094
Total Deferred Revenue	<u>\$ -</u>	<u>\$ 142,567</u>

Notes to the Financial Statements (Continued)

NOTE E CAPITAL ASSETS

Capital asset activity of the primary government of the current year was as follows:

	1/1/2007 Balance	Increases	Decreases	12/31/2007 Balance
Governmental Activities				
Capital Assets not Being Depreciated:				
Land	\$ 327,893	\$ -	\$ -	\$ 327,893
Capital Assets Being Depreciated:				
Library Collection	818,154	80,140	(46,224)	852,070
Buildings & Improvements	6,157,114	-	-	6,157,114
Furniture & Equipment	735,296	5,550	(29,731)	711,115
Total at Historical Cost	7,710,564	85,690	(75,955)	7,720,299
Total Accumulated Depreciation	(2,057,369)	(219,462)	72,982	(2,203,849)
Net Capital Assets Being Depreciated	5,653,195	(133,772)	(2,973)	5,516,450
Total Governmental Activities Capital Capital Assets - Net of Depreciation	<u>\$ 5,981,088</u>	<u>\$ (133,772)</u>	<u>\$ (2,973)</u>	<u>\$ 5,844,343</u>

Depreciation expense for the year ended December 31, 2007 was as follows:

General Government	<u>\$ 219,462</u>
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NOTE F CHANGES IN LONG-TERM DEBT

A summary of the Library's long-term debt outstanding at December 31, 2007 is as follows:

	Balance 1/1/2007	Net Borrowings (Payments)	Balance 12/31/2007	Amounts Due Within One Year
Bonds Payable - Due in annual installments of \$5,000 through May 2016; interest payable semiannually at 4.15% to 4.875%	\$ 50,000	\$ (5,000)	\$ 45,000	\$ 5,000
Vacation and Sick Pay - Due as used or upon retirement or termination	8,762	2,920	11,682	2,920
Total Long-Term Debt	<u>\$ 58,762</u>	<u>\$ (2,080)</u>	<u>\$ 56,682</u>	<u>\$ 7,920</u>

The compensated absences represent the estimated liability to be paid employees under the Library's sick pay bonus and vacation pay policy. Under the Library's policy, employees earn vacation time and sick pay bonuses based on hours worked and years of service with the Library.

Debt Service Requirements

The annual requirements to amortized all debt outstanding at December 31, 2007 including both principal and interest are as follows:

Year Ended June 30	Principal	Interest	Total
2008	5,000	1,951	6,951
2009	5,000	1,738	6,738
2010	5,000	1,520	6,520
2011	5,000	1,298	6,298
2012 - 2016	25,000	3,009	28,009
Total	<u>\$ 45,000</u>	<u>\$ 9,516</u>	<u>\$ 54,516</u>

Interest expense of the Library for the year ended December 31, 2007 amounted to \$2,159 on the Bond Issue.

NOTE G RETIREMENT PLAN

Description of Plan and Plan Assets - The Library is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: Normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final average compensation (FAC) with a maximum benefit of 80 percent of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2006.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report the includes financial statements and required supplementary information for notes to the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, MI 48917-9755.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by the Library's personnel policy, which does not require employees to contribute to the plan. The Library is required to contribute at an actuarially determined rate; the rate was 14.85 percent as of July 1, 2006.

Annual Pension Cost - During the fiscal year ended December 31, 2007, the Library's contributions totaling \$37,790 were made in accordance with contribution requirements. The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increase of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Notes to the Financial Statements (Continued)

GASB 25 and GASB 27 Information - The following information has been prepared to provide the information necessary to comply with GASB Statements Number 25 and 27.

All entries and the annual employer contribution amount were based on the actuarial methods and assumptions used in the December 31, 2006 actuarial valuations. The entry age normal actuarial method was used to determine the entries at disclosure.

<u>GASB 25 Information</u>	As of 12/31/2006
Actuarial Accrued Liability	
Retirees and beneficiaries currently receiving benefits	\$ 505,651
Terminated employees not yet receiving benefits	29,075
Current Employees	
Accumulated employee contributions including allocated investment income	7,554
Employer Financed	247,973
Total Actuarial Accrued Liability (b)	790,253
Net Assets Available for Benefits at Actuarial Value (Market Value is \$553,598) (a)	608,870
Unfunded (Over funded) Actuarial Accrued Liability	\$ 181,383

GASB 27 Information

Fiscal Year Beginning	7/1/2008
Annual Required Contribution (ARC)	40,104
Amortized Factor Used	0.054719

Trend Information			
Fiscal Period Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2004	16,386	100%	-
December 31, 2005	34,140	100%	-
December 31, 2006	38,431	100%	-
December 31, 2007	37,790	100%	-

Schedule of Funding Progress						
Actuarial Valuation 12/31	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Over) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL As a % of Covered Payroll ((b-a)/c)
2002	460,835	\$ 636,850	\$ 176,015	72.36%	\$ 227,878	77.24%
2003	516,537	684,906	168,369	75.42%	230,779	72.96%
2004	542,707	689,542	146,835	78.71%	247,327	59.37%
2005	568,581	737,515	168,934	77.09%	270,027	62.56%
2006	608,870	790,253	181,383	77.05%	280,083	64.76%

Notes to the Financial Statements (Continued)

NOTE H DEFERRED COMPENSATION PLAN

The Library offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Library employees, permits deferral of a portion of earnings until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Library (without being restricted to the provisions of benefits under the plan), subject only to the claims of the Library's general creditors.

Participant rights under the plan are equal to those of general creditors of the Library in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of the Library that the Library has no liability for losses under the plan but does have the duty of due care that would be required for an ordinary prudent investor.

NOTE I RELATED PARTY TRANSACTIONS

The Library uses a cleaning company that is owned by a part-time employee of the Library. During the year ended December 31, 2007, \$32,707 was paid to this cleaning company.

NOTE J RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Library maintains commercial insurance coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Library. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE K RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's governmental fund differs from net assets and the statement of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified Accrual Basis	\$ 4,883
--	-----------------

Amounts reported in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund statements. Amounts reported for governmental activities in the statement of net assets:

Governmental Capital Assets	8,048,192	
Governmental Accumulated Depreciation	<u>(2,203,849)</u>	5,844,343

Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund statements. Long-term liabilities reported in the statement of net assets that are not reported in the governmental statement of activities:

Compensated Absences	(11,682)	
Bonds Payable	<u>(45,000)</u>	<u>(56,682)</u>

Net Assets of General Fund - Full Accrual Basis	\$ <u>5,792,544</u>
--	----------------------------

Net Change in Fund Balances - Modified Accrual Basis \$ (18,582)

Amounts reported in the statement of activities are different because:

Decrease in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	374
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Principal payments on long-term debt reported as an expenditure in the fund statements, but not in the statement of activities	5,000
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Capital outlays are reported as expenditures in the statement of revenues, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation

Library Books and Materials	80,140	
Capital Outlay	5,550	
Depreciation	(219,462)	(133,772)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sales. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the disposal of fixed assets.	(2,973)
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Change in Net Assets of General Fund - Full Accrual Basis \$ (149,953)**NOTE L OPERATING LEASES**

During 2005, the Library entered into a lease agreement with Pitney Bowes for a mailing system. The lease term is five years at \$46 per month.

During 2004, the Library entered into a lease agreement with GE Capital for two copiers (Konica 7145 Digital Copier and Minolta CF 4000 Copier). The lease term is five years at \$219 per month.

The following is a summary of future lease payments:

Year Ended June 30	Mailing System	Copiers	Total
2008	552	2,628	3,180
2009	552	2,409	2,961
2010	276	-	276
Total	\$ 1,380	\$ 5,037	\$ 6,417

FREMONT AREA DISTRICT LIBRARY

Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended December 31, 2007

REVENUE	Budgeted Amounts		Actual	Variance to Final Budget
	Original	Final		
Local Sources				
Property Taxes	\$ 544,000	\$ 518,597	\$ 534,016	\$ 15,419
Grants	154,000	170,631	131,896	(38,735)
Penal Fines	62,000	54,189	54,189	-
Interest	15,000	14,018	13,990	(28)
Patron Fees	28,000	27,919	25,428	(2,491)
Donations & Memorials	20,000	28,000	31,320	3,320
Miscellaneous	1,000	9,700	3,314	(6,386)
Total Local Sources	824,000	823,054	794,153	(28,901)
State Sources - State Aid	10,000	10,554	10,554	-
Total Revenue	834,000	833,608	804,707	(28,901)
EXPENDITURES				
Salaries and Wages	355,000	355,000	358,274	(3,274)
Payroll Taxes	27,200	26,800	26,224	576
Fringe Benefits	104,200	96,750	98,303	(1,553)
Acquisitions	59,200	72,774	73,515	(741)
Utilities and Telephone	74,000	73,200	73,470	(270)
Repairs and Maintenance	66,300	67,740	65,011	2,729
Insurance	24,000	14,000	13,580	420
Capital Outlay	30,000	22,000	12,752	9,248
Professional and Contracted Services	21,000	19,605	18,445	1,160
Co-Op Services	22,000	22,000	21,825	175
Supplies	30,050	33,530	35,510	(1,980)
Training	1,500	1,000	765	235
Transportation	2,500	4,800	4,686	114
Memberships	2,100	2,100	1,609	491
Printing and Advertising	2,600	2,000	1,953	47
Debt Service	7,450	7,265	7,159	106
Miscellaneous	4,350	7,350	10,208	(2,858)
Total Expenditures	833,450	827,914	823,289	4,625
Excess Revenue Over (Under) Expenditures	<u>\$ 550</u>	<u>\$ 5,694</u>	(18,582)	<u>\$ (24,276)</u>
Other Operating Sources (Uses)				
Transfers In/Out			2,066	
Fund Balance - January 1			21,399	
Fund Balance - December 31			<u>\$ 4,883</u>	

H&S Companies

Hendon & Slate, PC
Certified Public Accountants
Business Consultants

May 30, 2008

To the Board of Directors
Fremont Area District Library

We have audited the financial statements of Fremont Area District Library for the year ended December 31, 2007, and have issued our report thereon dated May 30, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated December 3, 2007, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Fremont Area District Library. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Fremont Area District Library's compliance with certain provisions of laws, regulations, contracts, and grants.

However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on January 29, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Fremont Area District Library are described in Note A to the financial statements. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the value of the Library's collections which is based on fair market value of \$10 per item.

Grand Rapids
4575 Lake Michigan Dr. NW
Grand Rapids, MI 49546
Phone (616) 453-8551
Fax (616) 453-9352

Muskegon
4985 South Harvey Street
Muskegon, MI 49444
Phone (231) 798-1040
Fax (231) 798-8409

Fremont
711 West Main Street
Fremont, MI 49412
Phone (231) 924-6890
Fax (231) 924-4088
Toll Free (800) 924-6891

Montague
4538 Dowling Street
Montague, MI 49437
Phone (231) 893-6772

Hart
1550 N. Industrial Park Drive
Hart, MI 49420
Phone (231) 873-5611
Fax (231) 873-7033

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The Library's use of a defined benefit pension plan with the Municipal Employees' Retirement System (MERS) which is based on an actuarial determined rate as disclosed in Note G to the financial statements.

We evaluated the key factors and assumptions used to develop the value of these items in determining that it is reasonable in relation to the financial statements taken as a whole

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of related party transactions in Note I to the financial statements indicating the relationship of Fremont Area District Library with a cleaning company the Library uses.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 30, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

Internal controls are designed to safeguard assets and help or detect losses from employee dishonesty or error. We are including the following comments and recommendations regarding internal controls:

Coding Transactions to the Proper Accounts. Transactions that were previously accounted for in the debt service fund, such as bank interest, bond payment, interest on bonds, and agent fees, are continuing to be recorded in the accounts coded to the debt service fund. Since the general fund is now accounting for all of those transactions, they should be included in the general fund accounts.

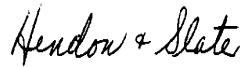
Cash Receipts and Deposits. Since cash is so readily subject to error and mishandling, effective control of checks, currency, and other cash items should begin at the time of receipt and continue through deposit, custody, and disbursement. During the audit, we noted that some of the cash count sheets for patron fees were not signed by the second person verifying the cash. We recommend that this sheet be signed by both the person preparing it and the person verifying it.

Also, we noted that a couple of deposits were taken to the bank several weeks following the receipt of the cash. All cash receipts should be deposited intact at least once per week.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Fremont Area District Library and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Hendon & Slate".

Hendon & Slate, PC
Certified Public Accounts
Fremont Office

FREMONT AREA DISTRICT LIBRARY

Passed Adjustments
12/31/2007

#	<u>Account</u>	<u>DR</u>	<u>CR</u>
1	<i>Reclass to proper account</i>		
	Interest Income	10.75	
	Misc. exp		10.75
2	<i>Record cash register receipts</i>		
	Accounts Receivable	933.81	
	Copy machine income		277.30
	Miscellaneous Income		45.27
	Book Fines		611.24
3	<i>Reclass phone reimbursements</i>		
	Communications	5,220.62	
	Reimbursements		5,220.62
4	<i>remove payables incorrectly recorded</i>		
	Accounts Payable	46.00	
	Periodicals -Operating	39.00	
	Contract Serv-Writers Live	500.00	
	Processing -Operating		385.00
	Postage-Operating		200.00
5	<i>Prior Year reversal of beginning AP</i>		
	AP	2,789.11	
	Retained Earnings		2,789.11
6	<i>Record beginning AP for Retirement</i>		
	Retained earnings	3,108.86	
	Accounts payable		3,108.86
7	<i>Reverse beginning AP for retirement</i>		
	Accounts Payable	3,108.86	
	Retirement		3,108.86
8	<i>Record ending AP for retirement</i>		
	Retirement	3,098.07	
	Accounts payable		3,098.07

H&S Companies

Hendon & Slate, PC
Certified Public Accountants
Business Consultants

Board Members,
Fremont Area District Library
Fremont, MI 49412

In planning and performing our audit of the financial statements of Fremont Area District Library as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Fremont Area District Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of Fremont Area District Library's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

Controls over the Selection and Application of Accounting Principles that are in Conformity with Generally Accepted Accounting Principles

The Board currently does not have personnel available with sufficient expertise to select and apply the accounting principles necessary to prepare the financial statements and note disclosures contained in the audit report.

Address Preparation of Financial Statements

As is common in small organizations, the Library's accounting department currently does not perform the following functions:

Grand Rapids
4575 Lake Michigan Dr. NW
Grand Rapids, MI 49546
Phone (616) 453-8551
Fax (616) 453-9352

Muskegon
4985 South Harvey Street
Muskegon, MI 49444
Phone (231) 798-1040
Fax (231) 798-8409

Fremont
711 West Main Street
Fremont, MI 49412
Phone (231) 924-6890
Fax (231) 924-4088
Toll Free (800) 924-6891

Montague
4538 Dowling Street
Montague, MI 49437
Phone (231) 893-6772

Hart
1550 N. Industrial Park Drive
Hart, MI 49420
Phone (231) 873-5611
Fax (231) 873-7033

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- Prepare its financial statements, complete with notes, in accordance with accounting principles generally accepted in the United States of America. Accordingly, the Library is unable to, and has not, established internal controls over the preparation of financial statements.
- Prepare schedules of property and equipment and record depreciation on a monthly basis. Currently, in the course of performing the audit, depreciation schedules are updated for activity during the year, and depreciation is calculated and recorded.
- Prepare journal entries to record deferred revenue. Currently, in the course of performing the audit, deferred revenue is recorded for grant income and property taxes.

As part of the audit, management has requested us to prepare a draft of the Library's financial statements, including the related notes to the financial statements. Management then performed a review of the financial statements. However, in order to provide improved oversight of the financial statement preparation services at an appropriate level and implement controls over the financial reporting process, management might establish review policies and procedures including the performance of some or all of the following functions:

- Review the adequacy of financial statement disclosures, possibly including reviewing and approving a completed disclosure checklist we would provide to you or by completing a disclosure checklist.
- Review and approve schedules and calculations supporting amounts included in the notes to the financial statements.
- Apply analytical procedures to the draft financial statements.
- Perform other procedures as considered necessary by management.

Segregation Payroll Duties and Strengthen Internal Control

Our review of the Library's payroll system disclosed that the person responsible for preparing the payroll also performs other payroll and personnel duties. Specifically, the person who prepares the payroll also distributes the payroll checks, reconciles the bank account, and has other personnel duties. This lack of segregation of payroll procedures combines to weaken internal control, and we believe that opportunities exist for reporting time for a terminated employee.

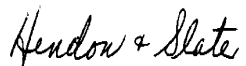
Consequently, while we understand that the Director currently transfers funds from the savings to the checking account and also reviews the bank reconciliation, we believe that further control over reconciliation is needed. As an additional control, we recommend that the Director receive the bank statement directly from the bank and review it (including the related enclosures) before turning it over to the administrative assistant for reconciliation. Also, paychecks should be distributed by an employee who is not directly connected with the preparation or accumulation of data on which the payroll is based, and those distributing the checks should be rotated from time to time.

Proper Documentation for Expenditures

One of the easiest ways for the Library to protect itself from fraud is to require and maintain proper documentation on all transactions in order to determine if they were proper expenditures of the Library. During the audit we noted one invoice was not attached to the check copy (check #11510 dated 5/1/07 payable to Bill's Shop-n-Save for \$51.45). In the future, we recommend that invoices be attached to all check copies to provide documentation of the expenditure.

This communication is intended solely for the information and use of management, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Hendon & Slate".

Hendon & Slate, P.C.
Certified Public Accountants
May 30, 2008